ORIGINAL

0000078507

MEMORANDUM

TO: Docket Control

FROM: Ernest Johnson
Director
Utilities Division

for

DATE November 9, 2007

RE: STAFF REPORT FOR YAVAPAI MOBILE HOME ESTATES (DOCKET NOS. W-02065A-07-0308, W-02065A-07-0309 & W-02065A-07-0311)

Attached is the Staff Report for Yavapai Mobile Home Estates (Wilhoit Water Company) applications for a permanent rate increase, for approval to refinance arsenic remediation equipment by issuing debt and for approval to refinance non-used and useful plant with debt. Staff recommends approval of its rates and charges. Staff further recommends authorization of an arsenic cost recovery mechanism, instead of authorization to incur debt, to provide recovery of the arsenic remediation equipment costs and denial of the request to refinance non-used and useful plant with debt.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before November 19, 2007.

EGJ: GTM: red

Originator: Gary T. McMurry

Attachment: Original and sixteen copies

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Arizona Corporation Commission
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Service List for: Wilhoit Water Company (Yavapai Mobile Home Estates)
Docket Nos. W-02065A-07-0308, W-02065A-07-0309 & W-02065A-07-0311

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

WILHOIT WATER COMPANY
YAVAPAI MOBILE HOME ESTATES
DOCKET NOS. W-02065A-07-0308, W-02065A-07-0309, & W-02065A-07-0311

APPLICATION
FOR A
PERMANENT RATE INCREASE
AND
FINANCING AUTHORITY

NOVEMBER 9, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Wilhoit Water Company's Yavapai Mobile Home Estates (Docket Nos. W-02065A-07-0308, W-02060A-07-0309 & W-02065A-07-0311) was the responsibility of the Staff members listed below. Gary McMurry was responsible for the review and analysis of the Company's application for a permanent rate increase, Staff's revenue requirement, rate base, rate design, and financing recommendations. Katrin Stukov was responsible for the engineering and technical analysis. Deb Reagan was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.

Gary McMurry

Gary T McMurry
Public Utilities Analyst IV

Katrin Stukov

Katrin Stukov
Utilities Engineer

Deborah Reagan

Deb Reagan
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY OF
WILHOIT WATER COMPANY
YAVAPAI MOBILE HOME ESTATES
DOCKET NOS. W-02065A-07-0308, W-02065A-07-0309 AND W-02065A-07-0311

Wilhoit Water Company ("Wilhoit") is a for profit public service corporation that provides water service for 369 customers in Yavapai County, Arizona. Wilhoit is a C Corporation consisting of three separate water systems. The three water systems, all of which are located in Yavapai County, are Yavapai Mobile Home Estates, Blue Hills and Thunderbird Meadows. This Staff report pertains solely with the operations of Yavapai Mobile Home Estates ("Yavapai" or "Company").

Rate Case:

Yavapai proposes total operating revenue of $61,875, an increase of $21,717 or 54.1 percent, above the Company's test year revenue of $40,158. The Company's proposed rates would increase the typical residential bill with a median usage of 3,882 gallons, from $19.41 to $28.30 for an increase of $8.89 or 45.8 percent. The Company proposes an inverted two-tier rate design.

Staff recommends total operating revenue of $50,531, an increase of $13,976 or 38.2 percent, above the Staff adjusted test year revenue of $36,555. Staff's recommended rates would decrease the typical residential bill with a median usage of 3,882 gallons, from $19.41 to $19.32 for a decrease of $0.09 or 0.5 percent. Staff recommends an inverted three-tier rate design to encourage efficient water use.

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule GTM-4.

Financing:

Wilhoit requests authorization to refinance by issuing debt of $10,000 to Glenarm Land Co., its parent, provided in 2005 to drill a well for Yavapai. The well is not used and useful. It was capped and never put into service due to high arsenic levels. Staff recommends denial of this requested refinancing.

Wilhoit also requests to refinance the $36,105 cost of arsenic remediation equipment initially financed by Glenarm Land Co. with a 10-year amortizing loan at 10.0 percent. Staff recommends authorization of an arsenic cost recovery mechanism ("ACRM") instead of authorization to incur debt.

Compliance:

Yavapai is not in compliance with Decision No. 58102, dated December 9, 1992, by which it was ordered to make arrangements with the appropriate taxing authorities to repay all accrued property taxes. Staff recommends that rates authorized in this case not become effective until the month subsequent to the Company filing in this docket a finalized plan (agreement with the Yavapai County Treasurer's Office) for payment of all of its delinquent property taxes owed on its utility property in Yavapai County.

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SCHEDULES

ATTACHMENT

Fact Sheet

Type of Ownership: "C" Corporation

Location: The Company is located approximately 10 miles north of Prescott in Yavapai County, Arizona.

Rates: Permanent rate increase application filed: May 21, 2007. Application was deemed sufficient on September 10, 2007.

Current Rates: Decision No. 58102, dated December 9, 1992

Current test year Ended: December 31, 2006

Prior test year Ended: December 31, 1990

Monthly Charges:

	Current Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Minimum Charge 5/8 x 3/4 – inch meter	$8.00	$12.00	$ 9.50
Gallons in Minimum	0	0	0
Commodity Charge:			
0 to 6,000 gallons (per 1,000 gallons)	$ 2.94	$ 4.20	
6,001 and over gallons (per 1,000 gallons)	$ 4.16	$ 6.71	
Tier One from 1 – 3,000 gallons			$ 2.20
Tier Two from 3,001 – 10,000 gallons			$ 3.65
Tier Three: all gallons over 10,000			$ 4.20
Typical residential bill:			
Average use (5,456 gallons)	$ 24.04	$ 34.91	$ 23.09
Median use (3,882 gallons)	$ 19.41	$ 28.30	$ 19.32

Customers:

Number of customers in prior test year (12/31/90) 78

Number of customers in the current test year (12/31/06): 95

Current test year customers by meter size:

5/8 X 3/4 – inch	93
2 – Inch	1
4 – Inch	1

Seasonal customers: N/A

Customer notification: Initial notice was provided on May 21, 2007
Customer notification: Amended notice was provided on June 15, 2007

Number of customer complaints: 10
Number of customer inquiries: 7
Number of customer opinions: 6

Period: 1/1/04 through 9/21/07

Summary of Rate Filing

On May 21, 2007, Wilhoit Water Company ("Wilhoit") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase and two applications financing authorizations for its Yavapai Mobile Home Estates ("Yavapai" or "Company") water system. On June 20, 2007, the application was deemed insufficient by the Utilities Division Staff ("Staff"). On July 3, 2007, Yavapai submitted a revised application for a permanent rate increase with the Commission. On August 3, 2007, the revised application was also found deficient. On August 20, 2007, Yavapai submitted a third version of its application for a permanent rate increase. On September 10, 2007, the application was deemed sufficient by Staff.

The Company's proposed rates, as filed, produce operating revenues of $61,875 and an operating income of $14,010 for an operating margin of 22.64 as shown on Schedule GTM-1. The request represents a $21,717, or 54.1 percent increase, over test year operating revenues. The Original Cost Rate Base ("OCRB") as filed by the Company is $117,493 as shown on Schedule GTM-2. The Company's proposed rates would increase the typical residential bill, with a median usage of 3,882 gallons, from $19.41 to $28.30 for an increase of $8.89, or 45.8 percent, as shown on Schedule GTM-5.

The test year results, as adjusted by Staff show an operating revenue of $36,555 and an operating loss of $1,930 that provides no operating margin as shown on Schedule GTM-1. Staff recommends rates that would produce operating revenues of $50,531 and an operating income of $10,928 to provide a 21.6 percent operating margin. Staff's recommended operating revenues represent a $13,976 increase over the test year. Staff's adjusted OCRB is $6,066 as shown on Schedule GTM-2. Staff's recommended rates would decrease the typical residential bill with a median usage of 3,882 gallons, from $19.41 to $19.32 for a decrease of $0.09 or 0.5 percent. Staff recommends an inverted three-tier rate design to encourage efficient water use.

Background

Wilhoit is a C Corporation consisting of three separate water systems, all of which are located in Yavapai County, Arizona. In addition to Yavapai, Wilhoit also operates the Blue Hills and Thunderbird Meadows water systems. Wilhoit and Dells Water Company are subsidiaries of Glenarm Land Co.

The Commission has granted Yavapai three rate increases (Decision No. 52042, dated April 10, 1981; Decision No. 57237, dated April 10, 1981; and Decision No. 58102, dated December 9, 1992) since its formation in 1968.

During the test year ended December 31, 2006, Yavapai provided water service to 95 metered customers. All customers are served by 5/8 x 3/4-inch meters with the exception of one 1-inch meter and one 2-inch meter.

Consumer Services

Staff's review of the Commission's records for the period January 1, 2004, to September 21, 2007, found ten complaints (all regarding arsenic), seven inquiries, and six opinions. In 2004 and 2005 there were no complaints, inquiries, or opinions expressed. In 2006, there were two complaints regarding arsenic and one opinion. In 2007 there were eight complaints regarding arsenic, seven inquiries and five opinions opposed to the rate increase. All complaints and inquiries have been resolved and closed.

Compliance

Staff's review of the Decision No. 58102 and related Staff memorandums revealed several areas of non-compliance with previous Commission Orders. A discussion of each non-compliance issue is presented below:

Sale of Assets and Cancellation of a Portion of the Wilhoit Certificate of Convenience and Necessity ("CC&N") Docket No. W-02065A-03-0490

On July 16, 2003, in Docket No. W-02065A-03-0490, Wilhoit filed an application for approval of the sale of that portion of its assets used to serve the Glenarm Farms water system to the City of Avondale and to cancel that portion of its CC&N. The assets requested to be transferred were encumbered by Maricopa County tax liens at the time totaling approximately $215,000.

The application indicated that the sale was being entered into under threat of condemnation. A Staff Report filed October 6, 2003, recommended approval of the sale and that the Commission order Wilhoit to file evidence that the State of Arizona would be paid amounts to satisfy the outstanding personal property tax obligation before the close of escrow.

The City of Avondale argued that the delinquent tax would be extinguished upon the sale to the City of Avondale in its capacity as a subdivision of the state. Staff's closing brief, however, indicated that cities are required to pay delinquent property taxes attached to the property they acquire. At the time of the hearing on the matter, the City of Avondale was on record as already providing service to the customers in the Glenarm Farms area.

Following a hearing, a Proposed Order was issued on January 7, 2004, which recommended approval of the sale and cancellation of a portion of the CC&N subject to several conditions, one of which was the filing of evidence that the outstanding tax liens were satisfied before the close of escrow or 30 days from the Decision, whichever occurred first.

According to the Commission's records, Wilhoit requested that consideration of the Proposed Order be pulled from the Open Meeting agenda, and it was. Wilhoit never subsequently requested that it be placed back on the agenda. On June 7, 2004, the Commission's Legal Division sent a letter to Mr. Douglas Martin who represented Wilhoit Water Company, requesting that the Company have the case placed on an Open Meeting agenda before December 31, 2004. There was no docketed response to the letter.

The sale and deletion docket remains open and Wilhoit is still the company of record for this area on the Commission's maps and records. To facilitate the processing of the case, Staff sent a letter to the parties of record on September 13, 2006, requesting the following information:

1. Has the transaction been consummated? If so, on what date?
2. Please provide a copy of the executed sales agreement.
3. What are the parties intentions regarding the Proposed Order and the Commission's review and vote on this matter?
4. What is the status of the property tax delinquencies of Wilhoit Water Company relative to the area transferred to Avondale?

Staff did not receive any responses from any party and the letter to Wilhoit's attorney was returned as non-deliverable.

On June 21, 2007, in the course of the current rate cases, Staff sent Wilhoit a data request which included the four questions listed above. Wilhoit responded to that data request producing the sales agreement with the City of Avondale dated July 3, 2003. Wilhoit also represented that the sale was consummated on September 10, 2004, and that the attorney for the City of Avondale has been unable to resolve the tax issue.

The transfer case is now over four years old. Wilhoit's wells and pipe in the transfer area have been abandoned and are not included in the current rate requests. The City of Avondale is now directly serving the customers in the transfer area. Staff concludes that it would not be in the public interest to pursue or further process the sale of assets and CC&N cancellation for the Glenarm Farms area and recommends that the Commission administratively close Docket No. W-02056A-03-0490 and remove the appropriate area from Wilhoit's service territory as shown on the Commission's CC&N maps.

Prior Rate Case Docket No. W-02065A-90-005

In Decision No. 57237, dated February 14, 1991, the Commission expressed concern over probable cross-subsidization among Wilhoit's water systems. Accordingly, Wilhoit was ordered to maintain separate records of revenues, expenses, and rate bases for each of its systems. In the following rate case (Docket No. W-02065A-92-0120), Wilhoit was in compliance with this recordkeeping provision of the order. However, Wilhoit is no longer in compliance, and it could not support separate expenses and rate bases for each of its systems in the current rate case, a violation of the National Association of Regulatory Utility Commissions ("NARUC") Uniform System of Accounts ("USAA")

Prior Rate Case Docket No. W-02065A-92-0120

Staff's review of a notice of legal action, dated September 14, 1993, filed by the Legal Division of the Arizona Corporation Commission revealed that there are several compliance items unresolved that arose from Decision No. 58102 dated December 9, 1992. Wilhoit was required to do the following:

a. file copies with the Director of the Utilities Division of "paid-in-full" tax statements for current property tax payments within 90 days of the tax statement due date (Due 2/1/93).

b. make arrangements with the appropriate taxing authorities to repay all accrued property tax and associated interest and to provide written summary to the Director of Utilities Division of the details of such arrangements/agreements (Due 6/9/93).

Wilhoit is not current on its property and sales tax payments. In addition, Wilhoit has delinquent taxes going back to the early 1990's. Copies of the amounts owed separated by water system from the Yavapai County Assessors' web site (dated April 2, 2007) are as follows:

Parcel No.	Company/Water System	Back Taxes Owed
907-60-190	The Dells Water Company	$6,316.40
929-92-340	Wilhoit Water Company Thunderbird Meadows	$39,661.22
929-95-120	Wilhoit Water Company Blue Hills	$6,746.51
929-95-120	Wilhoit Water Company Yavapai Mobile Home Estates	$26,735.81
929-95-131	Wilhoit Water Company	$154.13
Total back taxes owed, as of April 2, 2007		$79,614.07

According to a response to a Staff data request, Wilhoit through its Attorney's Martin & Bell, L.L.C., contacted the Yavapai County Treasurer's Office. Martin & Bell submitted a memo to Staff stating that Ross Jacobs, the County Treasurer, "indicated a desire to work with the water companies to pay the back taxes in a timely fashion and indicated that he would be open to abating, an as yet undefined portion of the penalties and interest, if a reasonable repayment plan could be fashioned."

Wilhoit's attorneys indicated to Mr. Jacobs "that the company did not currently have the financial wherewithal to commit to a repayment schedule, but that if the current rate requests pending before the ACC were successful, Wilhoit and Dells Water Companies would be prepared to enter into a repayment agreement."

As Wilhoit has not made good on past compliance requirements from the previous cases, and there is a pattern of the Company not paying taxes, Staff concludes that it is appropriate to defer the effective date for any new rates approved regarding any of the Wilhoit Water Company Systems or the Dells Water Company until the month subsequent to the date a copy of a final agreement between Wilhoit and the Yavapai County Treasurer's office regarding payment of delinquent taxes is filed in this docket.

Other Compliance Items

Yavapai has been charging the 5/8 x 3/4-inch minimum charge ($8.00) instead of the tariff rate for 2-inch ($64.00) and 4-inch ($200.00) meters.

The Company is in good standing with the Corporations Division of the Commission.

Engineering Analysis and Recommendations

Staff inspected the Company's plant facilities on August 10, 2007. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

The Yavapai water system has three wells available to serve 95 customers. The newest well, drilled in 2005, is presently capped and was never connected to the water system due to its high arsenic levels. The two older wells were taken out of service in January 2007 due to high arsenic levels. As a result of taking those two wells out of service, Yavapai's only source of potable water is a temporary interconnect with the City of Prescott. The City of Prescott has agreed to provide water to Yavapai customers through this temporary interconnect until December 31, 2007. Water provided to Yavapai via the Prescott tie-in meets all standards.

The Company's wells are currently not in compliance with the new arsenic maximum contaminant level. The Company plans to use the funds from its financing request (07-0309) to build plant to address this issue.

Rate Base

Staff's adjustments decreased the Company's proposed rate base by $27,282, from $29,422 to $6,066 as shown on Schedule GTM-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

As previously discussed in the "Background" section of this report, Wilhoit has not maintained records in accordance with the NARUC USOA, and it cannot support separately revenues, expenses, and rate base items for each of its three water systems. Accordingly, Yavapai could support only $81,853 of the $117,493 in plant costs claimed in its application resulting in a $35,640 Staff adjustment to remove the unsupported amount.

Wells & Springs – There are two separate adjustments to wells and springs. Adjustment A decreases this account by $10,000 to remove costs claims for drilling a well in 1997 that the Company could not document with invoices. Adjustment B removes $11,040 for a well dug in 2005 that is not used and useful. The 2005 well remains capped and is not useful for water production due to high arsenic concentration in the water. As a result of adjustments, Yavapai's wells and springs account drops $21,040 from $25,278 to $4,238.

Pumping Equipment – Adjustment C decreases this account by $5,000, from $23,996 to $18,996 as shown on Schedule GTM-2 pages 2 to remove costs claimed for a pump installation in 1997 that the Company could not support with documentation.

Distribution Reservoirs & Standpipes – Adjustment D decreases this account by $9,600, from $12,549 to $2,949 as shown on Schedule GTM-2, pages 2 to remove costs claimed for a tank acquisition in 2005 that the Company could not support with documentation.

Accumulated Depreciation

In adjustment E Staff decreased Accumulated Depreciation by $8,359 from $88,071 to $79,713 as shown on Schedule GTM-7. This adjustment correlates to Staff's adjustments to remove unsupported plant. That is, the adjustment removes the depreciation accumulated by the Company on plant removed by Staff.

Working Capital

Yavapai neglected to claim any cash working capital allowance. Staff's has included a cash working capital allowance of $3,925 based on the formula method as shown on GTM-2, page 1.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

Operating Income Statement

Operating Revenue

Staff decreased test year test year operating revenue by $5,405, from $40,158 to $34,753 as shown on Schedule GTM-3, page 1 (Adjustment A). Staff reclassified $1,802 representing service charges from Metered Water Revenue to Other Water Revenue and removed $3,603 of sales tax from operating revenue and operating expense to reflect treatment as a pass through item.

Operating Expenses

As previously mentioned in the Compliance section of this report, Wilhoit did not maintain records to separately identify expenses for its individual water systems. As a result, identifying the expenses directly attributable to the individual Wilhoit Water Systems or Dells Water Company could not be achieved. In an attempt to overcome this recordkeeping deficiency, the Company allocated certain expenses among its systems using the following percentages: Thunderbird Meadows, 45 percent; Yavapai Mobile Home Estates, 35 percent; Blue Hills, 20 percent; and Dells Water Company, 0 percent. According to the Company, these allocation factors represent relative customer counts for the systems at an unspecified historical date.

Staff developed alternate allocation factors for allocating expenses that could not be directly attributed to one of the Wilhoit Water Systems or the Dells Water Company since the customer counts used by Wilhoit are stale and because in some instances customer count is not the preferred allocation basis. Staff's customer based allocation factors for by water systems are as follows: Thunderbird Meadows Water System, 34.69 percent; Yavapai Water System, 29.81 percent; Blue Hills Water System, 17.34 percent; and Dells Water Company, 18.16 percent.

Staff's adjustments to operating expenses resulted in a net decrease of $9,380, from $47,865 to $38,485, as shown on Schedule GTM-3, page 1. Staff's adjustments are discussed below.

<u>Salaries and Wages</u> – Adjustment B decreases salaries and wages by $1,717 from $14,902 to $13,185 to reflect a pro rata share (29.81 percent) of the $44,231 salary pool based on the number of customers.

<u>Repairs and Maintenance</u> – Adjustment C decreases repairs and maintenance expenses by $1,053, from $12,104 to $11,051. This adjustment reflects a pro rata share ($533 or 29.81 percent) of the $1,788 repair and maintenance expense pool based on the number of customers and $10,518 of direct costs. Staff's $1,788 expense pool reflects a $6,324 decrease from the Company's $8,112 expense pool, to remove non-test year and unsupported amounts.

Office Supplies and Expense – Adjustment D decreases supplies by $303 from $1,079 to $776 to reflect Staff's estimation of a reasonable office supply amount. The Company provided Staff with no supporting documentation (i.e. invoices) to support its claim costs. Staff estimated office supplies expense at $0.5876 per customer per month based on supply items such as postage, envelopes, printer cartridges, etc. (110 customers x 12 months x 0.5876 = $776).

Water Testing Expense – Adjustment E decreases water testing expenses by $1,576 from $3,559 to $1,983 (See Engineering Report).

Rents – Adjustment F decreases rents by $660 from $2,310 to $1,650, to reflect an equal allocation of the $6,600 pooled rent expense among the three Wilhoit water systems and Dells Water Company.

General Liability Insurance – Adjustment G decreases insurance by $171 from $1,157 to $986. This adjustment reflects a pro rata share ($986 or 29.81 percent) of the $3,307 general liability insurance expense pool based on the number of customers.

Miscellaneous Expense – Adjustment H decreases miscellaneous expenses by $2,207 from $2,307 to $100 to reflect an equal allocation of Staff's $399 pooled miscellaneous expense among the three Wilhoit water systems and Dells Water Company. Staff's $399 expense pool reflects a $6,192 decrease from the Company's $6,591 expense pool to remove non-test year and unsupported amounts.

Depreciation Expense – Adjustment I decreases depreciation expense by $1,827 in the test year from $1,827 to $0. The Company's depreciable plant is fully depreciated as shown in Schedule GTM-3, page 3, accordingly, depreciation expense is zero.

Taxes other than Income – Adjustment A decreases taxes other than income by $3,603 from $3,603 to $0. Staff removed sales taxes from operating revenues and operating expenses to treat sales taxes as a pass through item as previously discussed.

Property Taxes – Adjustment J increased property taxes by $1,963, from $0 to $1,963, to reflect the actual 2006 property tax assessment by the County.

Income Taxes – Adjustment K increases test year income taxes by $1,774 from $0 to $1,774 to reflect a pro rata share of the consolidated income tax expense to the four water systems based on taxable income and application of statutory federal and state tax rates.

Revenue Requirement

Staff recommends total operating revenue of $50,531, an increase of $13,976, or 38.2 percent above the Company's test year revenue of $36,555. Staff's recommended revenue provides an operating income of $10,928, an operating margin of 21.6 percent and a 180.16 percent rate of return on a rate base of $6,066 as shown in Schedule GTM-1.

Rate Design

Schedule GTM-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The present rate design is an inverted two-tier commodity rate structure. The monthly customer charges in present rates vary by meter size as follows: 5/8 x 3/4 inch \$8.00; 3/4-inch, \$8.00; 1-inch, \$8.00; 1½-inch, \$40.00; 2-inch, \$64.00; 4-inch, \$200; and 6-inch, \$400. Currently no gallons are included in the minimum charges. The present commodity rate is \$2.94 per 1,000 gallons up to 6,000 gallons and \$4.16 per 1,000 gallons over 6,000 gallons.

Yavapai proposes to continue the existing inverted two-tiered rate structure with a break-over point at 6,000 gallons for all meter sizes with a \$4.20 first tier commodity rate and a \$6.71 second tier commodity rate. The Company proposed a \$12.00 minimum charge for 5/8 x 3/4-inch meters and \$0.00 for all other meter sizes with no gallons included.

Staff recommends an inverted rate structure. For 5/8 x 3/4-inch and 3/4-inch meters Staff's recommended rate structure includes three tiers with break-over points at 3,000 and 10,000 gallons. The first, second and third tier commodity rates for 5/8 x 3/4-inch and 3/4-inch meters are \$2.20, \$3.65 and \$4.20, respectively. For larger meters, Staff recommends two tiers with break-over points that increase with meter size. The first and second tier commodity rates for larger meters are \$3.65 and \$4.20, respectively. Staff recommends minimum charges (with no gallons included) that increase from \$9.50 for 5/8 x 3/4-inch and 3/4-inch meters to \$475.00 for 6-inch meter based on volumetric capacity. Under Staff's recommended rate design, the monthly bill at any usage level is higher for a larger meter than for a smaller meter. Staff's inverted tier rate structure encourages efficient water usage by assigning higher costs to customers with larger meters and larger consumption.

The Company proposes to increase most of its service charges. Staff recommends increases to certain miscellaneous service charges as shown on Schedule GTM-4. The Staff recommended amounts represent the median amount charged for similarly sized companies that were used in a Staff prepared miscellaneous service charge study.

The Company's proposed service line and meter installation charges were calculated based on out-dated amounts set 17 years ago. Staff recommends approval of Staff's Service Line and Meter Installation Charges as delineated in Table C of the attached Engineering Report.

Financing Application(s)

Introduction

On May 21, 2007, Yavapai filed two finance applications with the Commission requesting authorization to refinance amounts of \$10,000 (07-308) and \$36,105 (07-0309).

Public Notice

Yavapai provided an Affidavit of Mailing of an Amended Customer Notification dated June 18, 2007.

Purpose and Terms of the Proposed Financing

The purpose of the 07-308 application is to request authorization to refinance $10,000 of funds provided by Glenarm to drill a new well in 2005[1] by converting the equity infusion to long-term debt. The Company proposes a 10-year, 10.00 percent amortizing loan.

The purpose of the 07-309 application is to request authorization to refinance the $36,105 cost of arsenic remediation equipment financed by Glenarm with a 10-year amortizing loan at 10.00 percent. The funds are financing the purchase and installation of equipment needed to remove arsenic from Yavapai' two functioning wells. The arsenic remediation equipment is not yet in service. However, the Company anticipates placing it in service in 2007. The proposed financing is in the amount of $36,105, amortized over 10 years at 10.00 percent.

Engineering Analysis

Staff examined the plans and estimated costs for Yavapai's two financing applications and found them to be reasonable and appropriate. A complete discussion of the projects and costs are discussed in the attached Engineering Report.

Financial Analysis

07-0308 Financing

Yavapai is not a publicly traded entity, and accordingly, it does not have access to capital markets. Lack of access to the capital markets places a premium on reducing financial risk by maintaining debt to a minimum level. Yavapai has already obtained and spent the funds for drilling a well through the equity infusion of its parent. Refinancing this equity infusion with debt would serve to increase financial risk which is contrary to the objective to minimize debt and financial risk for an entity lacking access to the capital markets. Accordingly, Staff concludes that the request to refinance the $10,000 equity infusion used to drill a well is not consistent with sound financial principles. Schedule GTM-6 presents the pro forma times interest earned ratio ("TIER") and debt service coverage ratio ("DSC") for the 07-308 and 07-309 (discussed below) proposed debt issuances.

[1] The well was capped and never placed into service due to a high level of arsenic.

07-0309 Financing

For the same reasons discussed above regarding the 07-307 financing, Staff also concludes that refinancing the $36,105 equity infusion used for purchasing and installing arsenic remedial equipment is not consistent with sound financial principles. In similar circumstances where water utilities have invested capital in arsenic remediation, the Commission has previously authorized an arsenic cost recovery mechanism ("ACRM") to recover arsenic remediation costs.[2] Staff concludes that authorization of an ACRM is an appropriate ratemaking treatment of the Yavapai's arsenic remediation costs.

The purpose of the ACRM is to permit recovery of the capital and operating costs of providing arsenic remediation once the plant is place in service when the in-service date occurs subsequent to the end of the test year. An ACRM is a two-step process. Each step requires the Company to make a filing requesting authorization of a surcharge. Step one provides for recovery of and on the arsenic plant investment. Step two provides for recovery of related operation and maintenance expenses ("O&M") going forward and recovery of O&M deferred for up to twelve months prior to the step two filing. The specific O&M expenses that may be deferred and recovered are: 1) media replacement or regeneration costs, 2) media replacement or regeneration service costs or 3) waste media or regeneration disposal costs. Staff concludes that authorization of an ACRM that parallels those authorized in Decision Nos. 66400 and 68825 is appropriate for Yavapai. However, the earnings test for the ACRM should be established at the Staff recommended Operating Margin (21.63%) instead of the rate of return authorized in this portion of the rate case since the rate base is small and by itself does not provide a good measure of a fair return. Accordingly, Yavapai should be required to submit ACRM filings to the Commission with the following ten schedules (See Exhibit B).

1. Balance Sheet – most current one available as of time of filing.
2. Income Statement – most current available as of time of filing with adjustments conforming with the decision.
3. Earnings Test – A schedule verifying that the Company's arsenic rate surcharge will not result in operating income in excess of the authorized operating margin.
4. Rate Review Schedule – including the incremental and pro forma effects of the proposed increase.
5. Arsenic Revenue Requirement – Includes a calculation based on earnings test.
6. Surcharge Calculation – a detailed surcharge calculation.[3]
7. Rate Base – a schedule showing the elements and the calculation of the rate base.
8. Construction Work in Progress (CWIP) Ledger – a ledger showing the construction work in progress (as applicable).
9. Cost Allocation Factor Schedule – a schedule of all cost allocation factors amounts.
10. Typical Bill Analysis – A typical bill analysis showing the effects on residential customers at various consumption levels.

[2] Arizona Water Company (Decision No. 66400) and Arizona American Water Company (Decision No. 68825)
[3] The rate design for an ACRM collects 50 percent of the revenue from the minimum charge and 50 percent from the commodity charge.

Conclusions and Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule GTM-4. In addition, the Company may collect from its customers a proportionate share of any privilege, sales or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff recommends that rates authorized in this case not become effective until the month subsequent to the Company filing in this docket a finalized plan (agreement with the Yavapai County Treasurer's Office) for payment of all of its delinquent property taxes owed on its utility property in Yavapai County.

Staff further recommends that the Commission direct Wilhoit to charge only its tariff rates.

Staff further recommends that the Commission order Wilhoit to maintain its records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") so that separate operating revenues, operating expenses and rate base accounts are segregated for each water system.

Staff further recommends denial of the request to issue debt to refinance the $10,000 provided by Yavapai's parent to drill a well.

Staff further recommends denial of the request to refinance the $36,105 provided by Yavapai's parent to purchase and install arsenic remediation equipment.

Staff further recommends authorization of an arsenic cost recovery mechanism to provide recovery of arsenic remediation as described in this report.

Staff further recommends keeping this docket open to facilitate implementation of an arsenic cost recovery mechanism.

Staff further recommends requiring Yavapai to file a rate case within 5 years of a decision in this case.

Staff recommends that the Yavapai use Staff's depreciation rates delineated in Table B of the attached Engineering Report.

Staff recommends that the Commission administratively close Docket No. W-02056A-03-0490 and remove the appropriate area from Wilhoit' service territory as shown on the Commission CC&N maps.

Yavapai Mobile Home Estates
Docket No. W-06065A-07-0311
Test Year Ended December 31, 2006

Schedule GTM-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	$40,158	$34,753	$61,875	$48,731
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	1,802	0	1,800
Total Operating Revenue	$40,158	**$36,555**	$61,875	**$50,531**
Operating Expenses:				
Operation and Maintenance	$42,435	$34,748	$42,435	$34,748
Depreciation	1,827	0	1,827	0
Property & Other Taxes	3,603	1,963	3,603	1,963
Income Tax	0	1,774	0	2,891
Total Operating Expense	$47,865	**$38,485**	$47,865	**$39,603**
Operating Income/(Loss)	($7,707)	**($1,930)**	$14,010	**$10,928**
Rate Base O.C.L.D.	$29,422	$6,066	$29,422	$6,066
Rate of Return - O.C.L.D.	N/M	N/M	47.62%	180.16%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Operating Margin	N/M	N/M	22.64%	21.63%

NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	---------- Original Cost ------------		
	Company	Adjustment	Staff
Plant in Service	$117,493	($35,640)	$81,853
Less:			
Accum. Depreciation	88,071	(8,359)	79,713
Net Plant	$29,422	($27,282)	**$2,141**
Less:			
Plant Advances	$0	$0	$0
Accumulated Deferred Income Taxes	0	0	0
Total Advances	$0	$0	$0
Contributions Gross	$0	$0	$0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	$0	$0	$0
Total Deductions	$0	$0	**$0**
Plus:			
1/24 Power	$0	$209	$209
1/8 Operation & Maint.	0	3,716	3,716
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	$0	$3,925	**$3,925**
Rate Base	**$29,422**	**($23,356)**	**$6,066**

Explanation of Adjustment(s):

Yavapai did not claim a cash working capital allowance. A working capital allowance based on its rate application numbers would have been $4,886. Several adjustments were made to operating expenses based on Staff's evaluation. As a result, a revised working capital allowance of $3,865 is recommended by Staff.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	$0	$0		$0
302 Franchises	0	0		0
303 Land & Land Rights	1,250	0		1,250
304 Structures & Improvements	5,000	0		5,000
307 Wells & Springs	25,278	(21,040)	A,B	4,238
311 Pumping Equipment	23,996	(5,000)	C	18,996
320 Water Treatment Equipment	0	0		0
330 Distribution Reservoirs & Standpipes	12,549	(9,600)	D	2,949
331 Transmission & Distribution Mains	36,611	0		36,611
333 Services	7,057	0		7,057
334 Meters & Meter Installations	5,603	0		5,603
335 Hydrants	0	0		0
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	0	0		0
340 Office Furniture & Equipment	149	0		149
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	0	0		0
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	0	0		0
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	0	0		0
348 Other Tangible Plant	0	0		0
105 C.W.I.P.	0	0		0
TOTALS	$117,493	($35,640)		$81,853

Explanation of Adjustment (s):

Plant in service was reduced as follows to reflect the Company's lack of support.

A	Wells & Springs	$	10,000
C	Pumping Equipment		5,000
D	Distribution Reserviors & Standpipes		9,600
	Total reductions for lack of support	$	24,600

Plant in service was reduced as follows to remove not used or useful items.

B	Wells & Springs		11,040
	Total reductions for not used or useful assets	$	11,040
	Total Plant in service reductions	$	35,640

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ACCUMULATED DEPRECIATION ADJUSTMENT

	Amount	
Accumulated Depreciation - Per Company	$88,071	
Accumulated Depreciation - Per Staff	79,713	
Total Adjustment	($8,359)	E

Explanation of Adjustment:

E - This entry represents the reversal of depreciation expense recorded on assets that the company was unable to support.

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STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	$40,158	(5,405)	A	$34,753
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	0	1,802		1,802
Total Operating Revenue	$40,158	($3,603)		**$36,555**
Operating Expenses:				
601 Salaries and Wages	$14,902	($1,717)	B	$13,185
610 Purchased Water	0	0		0
615 Purchased Power	5,017	0		5,017
618 Chemicals	0	0		0
620 Repairs and Maintenance	12,104	(1,053)	C	11,051
621 Office Supplies & Expense	1,079	(303)	D	776
630 Outside Services	0	0		0
635 Water Testing	3,559	(1,576)	E	1,983
641 Rents	2,310	(660)	F	1,650
650 Transportation Expenses	0	0		0
657 Insurance - General Liability	1,157	(171)	G	986
659 Insurance - Health and Life	0	0		0
666 Regulatory Commisssion Expense - Rate Case	0	0		0
675 Miscellaneous Expense	2,307	(2,207)	H	100
403 Depreciation Expense	1,827	(1,827)	I	0
408 Taxes Other Than Income	3,603	(3,603)	A	0
408.11 Property Taxes	0	1,963	J	1,963
409 Income Tax	0	1,774	K	1,774
Total Operating Expenses	$47,865	($9,380)		**$38,485**
OPERATING INCOME/(LOSS)	**($7,707)**	**$5,777**		**($1,930)**
Other Income/(Expense):				
419 Interest and Dividend Income	$0	$0		$0
421 Non-Utility Income	0	0		0
427 Interest Expense	0	0		0
4XX Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	0	0		0
Total Other Income/(Expense)	$0	$0		$0
NET INCOME/(LOSS)	**($7,707)**	**$5,777**		**($1,930)**

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STAFF ADJUSTMENTS (Con't)

A	METERED WATER REVENUE - Per Company	$40,158	
	Metered Water Revenue - Per Staff	34,753	($5,405)

To transfer $1,802 to other non-metered revenue (e.g. NSF fees, reconnects, etc.) and to eliminate sales tax from operating revenue and expense and treat it as a pass through item.

B	SALARIES AND WAGES - Per Company	$14,902	
	Per Staff	13,185	($1,717)

To recognize a pro-rata share of the $4,231 in consolidated salaries based on Yavapai number of customers (30 percent).

C	REPAIRS AND MAINTENANCE - Per Company	$12,104	
	Per Staff	11,051	($1,053)

To recognize a pro rata share of the $4,505 consolicated expense based on the number of customers (30 percent) and $9,224 of direct costs.

D	OFFICE SUPPLIES & EXPENSE - Per Company	$1,079	
	Per Staff	776	($303)

To recognize Staff's estimate of expense at $0.5876 per customer each month to produce monthly billings to Yavapai's 95 customers.

E	WATER TESTING - Per Company	$3,559	
	Per Staff	1,983	($1,576)

To recognize normalized on-going average water testing expenses.

F	RENTS - Per Company	$2,310	
	Per Staff	1,650	($660)

To recognize a 25 percent share of the $6,600 consolidated rent in equal shares between the four water systems

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STAFF ADJUSTMENTS (Cont.)

G	INSURANCE - GENERAL LIABILITY - Per Company	$1,157	
	Per Staff	986	($171)

To recognize a pro rata share of the $3,307 consolidated insurance expense based on the number of customers.

H	MISCELLANEOUS EXPENSE - Per Company	$2,307	
	Per Staff	100	($2,207)

To recognize a 25 percent share of the $399 consolidated amount claimed by the company representing an equal sharing between the four water systems.

Pro Forma Annual Depreciation Expense:

Plant in Service	$81,853
Less: Non Depreciable Plant	1,250
Fully Depreciated Plant	80,603
Depreciable Plant	$0
Times: Staff Proposed Depreciation Rate	5.00%
Credit to Accumulated Depreciation	$0
Less: Amort. of CIAC* @ 5.00%	0
Pro Forma Annual Depreciation Expense	**$0**

I	DEPRECIATION EXPENSE - Per Company	$1,827	
	Per Staff	0	($1,827)

To reverse out depreciation expense posted by the Company.

J	PROPERTY TAXES - Per Company	$0	
	Per Staff	1,963	$1,963

To recognize the actual amount of the test year (2006) property tax bill.

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STAFF ADJUSTMENTS (Cont.)

K	INCOME TAXES - Per Company	$0	
	Per Staff	1,774	$1,774

To recognize a pro rata share of the consolidated income tax expense for the four water systems based on taxable income.

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Schedule GTM-4

RATE DESIGN

All Classes - Residential, Commercial, & Industrial	Present	-Proposed Rates-	
Monthly Usage Charge	Rates	Company	Staff
5/8" x 3/4" Meter	$8.00	$12.00	$ 9.50
3/4" Meter	8.00	0.00	14.25
1" Meter	8.00	0.00	23.75
1½" Meter	40.00	0.00	47.50
2" Meter	64.00	0.00	76.00
3" Meter	120.00	0.00	152.00
4" Meter	200.00	0.00	237.50
6" Meter	400.00	0.00	475.00
Company Proposed			
First Tier - 0 - 6,000 gallons	$ 2.94	$ 4.20	N/A
Second Tier - over 6,000 gallons	$ 4.16	$ 6.71	N/A
Staff Recommended - 5/8 x 3/4 and 3/4 inch customers			
Tier One Rate - 0 - 3,000 gallons			$ 2.20
Tier Two Rate - 3,001 - 10,000 gallons			$ 3.65
Tier Three Rate - Over 10,000 gallons			$ 4.20
Staff Recommended - 1 inch			
Tier One Rate - 0 - 20,000 gallons			$ 3.65
Tier Two Rate - over 20,000 gallons			$ 4.20
Staff Recommended - 1.5 inch			
Tier One Rate - 0 - 55,000 gallons			$ 3.65
Tier Two Rate - over 55,000 gallons			$ 4.20
Staff Recommended - 2 inch			
Tier One Rate - 0 - 100,000 gallons			$ 3.65
Tier Two Rate - over 100,000 gallons			$ 4.20
Staff Recommended - 3 inch			
Tier One Rate - 0 - 220,000 gallons			$ 3.65
Tier Two Rate - over 220,000 gallons			$ 4.20
Staff Recommended - 4 inch			
Tier One Rate - 0 - 350,000 gallons			$ 3.65
Tier Two Rate - over 350,000 gallons			$ 4.20
Staff Recommended - 6 inch			
Tier One Rate - 0 - 730,000 gallons			$ 3.65
Tier Two Rate - over 730,000 gallons			$ 4.20
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	$265.00	$520.00	$520.00
3/4" Meter	295.00	600.00	600.00
1" Meter	345.00	690.00	690.00
1½" Meter	520.00	935.00	935.00
2" Meter	725.00	1,595.00	1,595.00
3" Meter	925.00	2,275.00	2,275.00
4" Meter	1,550.00	3,520.00	3,520.00
6" Meter	3,725.00	6,275.00	6,275.00
Service Charges			
Establishment	$30.00	$100.00	$30.00
Establishment (After Hours)	0.00	0.00	0.00
Reconnection (Delinquent)	30.00	100.00	30.00
Meter Test (If Correct)	50.00	150.00	35.00
Deposit	0.00	0.00	*
Deposit Interest	0.00%	0.00%	*
Re-Establishment (Within 12 Months)	0.00	**	**
NSF Check	15.00	35.00	30.00
Deferred Payment	6.00%	6.00%	6.00%
Meter Re-Read (If Correct)	15.00	0.00	15.00
Monthly Service Charge for Fire Sprinkler			
4" or Smaller	$0.00	$0.00	***
6"	0.00	0.00	***
8"	0.00	0.00	***
10"	0.00	0.00	***
Larger than 10"	0.00	0.00	***

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines seperate and distinct from the primary water service line.

Yavapai Mobile Home Estates
Docket No. W-0265A-07-0308
Test Year Ended December 31, 2006

GTM-5

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 108

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,456	$24.04	$34.91	$10.87	45.2%
Median Usage	3,882	$19.41	$28.30	$8.89	45.8%
Staff Recommend					
Average Usage	5,456	$24.04	$25.06	$1.02	4.2%
Median Usage	3,882	$19.41	$19.32	($0.09)	-0.5%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$8.00	$12.00	50.0%	$9.50	18.8%
1,000	10.94	16.20	48.1%	11.70	6.9%
2,000	13.88	20.40	47.0%	13.90	0.1%
3,000	16.82	24.60	46.3%	16.10	-4.3%
4,000	19.76	28.80	45.7%	19.75	-0.1%
5,000	22.70	33.00	45.4%	23.40	3.1%
6,000	25.64	37.20	45.1%	27.05	5.5%
7,000	29.80	43.91	47.3%	30.70	3.0%
8,000	33.96	50.62	49.1%	34.35	1.1%
9,000	38.12	57.33	50.4%	38.00	-0.3%
10,000	42.28	64.04	51.5%	41.65	-1.5%
15,000	63.08	97.59	54.7%	62.65	-0.7%
20,000	83.88	131.14	56.3%	83.65	-0.3%
25,000	104.68	164.69	57.3%	104.65	0.0%
50,000	208.68	332.44	59.3%	209.65	0.5%
75,000	312.68	500.19	60.0%	314.65	0.6%
100,000	416.68	667.94	60.3%	419.65	0.7%
125,000	520.68	835.69	60.5%	524.65	0.8%
150,000	624.68	1,003.44	60.6%	629.65	0.8%
175,000	728.68	1,171.19	60.7%	734.65	0.8%
200,000	832.68	1,338.94	60.8%	839.65	0.8%

Wilhoit Water Company - Yavapai Mobile Home Estates
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Test Year Ended December 31, 2006

Schedule GTM-6

FINANCIAL ANALYSIS

Selected Financial Data

		[A]	[B]	[C]	[D]
		12/31/2006	*Pro Forma* [1]	*Pro Forma* [2]	*Pro Forma* [3]
1	Operating Income	$ (1,930)	$ 6,796	$ 6,796	$ 6,796
2	Depreciation & Amort.	0	0	0	0
3	Income Tax Expense	1,774	1,798	1,798	1,798
4	Interest Expense	0	972	3,511	4,483
5	Repayment of Principal	0	613	2,215	2,828
6	**TIER** [1+3] ÷ [5]	N/M	8.84	2.45	1.92
7	**DSC** [1+2+3] ÷ [5+6]	N/M	5.42	1.50	1.18
8	**Cash Coverage Ratio** [1+2+3] ÷ [5]	N/M	8.84	2.45	1.92
9	Short-term Debt	$0	$0	$0	$0
10	Long-term Debt	$10,000	$10,000	36,105	$46,105
11	Common Equity[4]	N/A	N/A	N/A	N/A
12	Total Capital	N/A	N/A	N/A	N/A

(1) Column B modifies Column A to reflect a $10,000 ten-year amortizing loan at 10.0 percent and Staff's recommended revenue.

(2) Column C modifies Column A to reflect a $36,105 ten-year amortizing loan at 10.0 percent and Staff's recommended revenue.

(3) Column D is Column A modified to include a $46,105 ($10,000 + $36,105) ten-year amortizing loan at 10.0 percent and Staff's recommended revenue.

(4) An equity value cannot be determined from the Company records.

Wilhoit Water Company - Yavapai Mobile Home Estates **GTM-7**
Docket No. W-06065A-07-0311
Test Year Ended December 31, 2006

ADJUSTMENT E - ACCUMULATED DEPRECIATION ADJUSTMENT FOR UNSUPPORTED PLANT ADDITIONS

Line No.	DESCRIPTION	(A) COMPANY PROPOSED	(B) STAFF ADJUSTMENTS	(C) STAFF RECOMMENDED
1	Accum. Depreciation	$ 88,071	$ 8,359	$ 79,713

Line No.	Description	Year	Wells & Springs	Pumping Equipment	Storage Tanks	Annual Depreciation Expense
2	Acquisition	1997	$ 10,000	$ 5,000		
3	1/2 yr convention	1997	250	125		$ 375
4	Net Book Value	1997	9,750	4,875		
5	Depreciation	1998	500	250		750
6	Net Book Value	1998	9,250	4,625		
7	Depreciation	1999	500	250		750
8	Net Book Value	1999	8,750	4,375		
9	Depreciation	2000	500	250		750
10	Net Book Value	2000	8,250	4,125		
11	Depreciation	2001	500	250		750
12	Net Book Value	2001	7,750	3,875		
13	Depreciation	2002	500	250		750
14	Net Book Value	2002	7,250	3,625		
15	Depreciation	2003	500	250		750
16	Net Book Value	2003	6,750	3,375		
17	Depreciation	2004	500	250		750
18	Net Book Value	2004	6,250	3,125		
19	Acquisition	2005	4,750	-	$ 9,600	
20	1/2 yr convention	2005	119	-	240	359
21	full yr on remain	2005	500	250	0	750
22	Net Book Value	2005	10,381	2,875	9360	
23	Depreciation	2006	738	250	480	1,468
24	Acquisition	2006	6,290	-	0	-
25	1/2 yr convention	2006	157	-	0	157
26	Totals	2006	15,777	2,625	8880	
27	Total Unsupported Acquisitions		$ 21,040	$ 5,000	$ 9,600	
28	Accumulated Depreciation Adjustment					$ 8,359

Unsupported asset additions

Wilhoit Water Company - Yavapai Mobile Home Estates
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Test Year Ended December 31, 2006

OPERATING INCOME ADJUSTMENT #6 - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	PRIOR DECISION RATE BASE	+ PLANT ADDITIONS - PLANT SUBTRACTIONS	[A] STAFF ADJUSTED AMOUNT	LESS ACCUMULATED DEPRECIATION	[B] OCLD Depreciable AMOUNT	[C] Projected RATE	[D] EXPENSE
	Plant In Service								
1	301.0	Organization	$ -		$ -		$ -	0.00%	$ -
2	302.0	Franchises			-		-	0.00%	-
3	303.0	Land & Land Rights	1,250		1,250	N/A	-	0.00%	-
4	304.0	Structures & Improvements	5,000		5,000	5,000	-	3.33%	-
5	305.0	Collecting & Impounding Reservoirs			-		-	2.50%	-
6	306.0	Lake, River, Canal Intakes			-		-	2.50%	-
7	307.0	Wells & Springs	4,238	21,040	4,238	4,238	-	3.33%	-
8	308.0	Infiltration Galleries			-		-	6.67%	-
9	309.0	Raw Water Supply Mains			-		-	2.00%	-
10	310.0	Power Generation Equipment			-		-	5.00%	-
11	311.0	Pumping Equipment	18,996	5,000	18,996	18,996	-	12.50%	-
12	320.0	Water Treatment Equipment					-		
13	320.1	Water Treatment Plants					-	3.33%	-
14	320.2	Solution Chemical Feeders					-	20.00%	-
15	330.0	Distribution Reservoirs & Standpipes	2,949		2,949	2,949	-		
16	330.1	Storage Tanks		9,600			-	2.22%	-
17	330.2	Pressure Tanks					-	5.00%	-
18	331.0	Transmission & Distrib. Mains	36,611		36,611	36,611	-	2.00%	-
19	333.0	Services	7,057		7,057	7,057	-	3.33%	-
20	334.0	Meters & Meter Installations	5,603		5,603	5,603	-	8.30%	-
21	335.0	Hydrants			-		-	2.00%	-
22	336.0	Backflow Prevention Devices			-		-	6.67%	-
23	339.0	Other Plant & Misc. Equipment			-		-	6.67%	-
24	340.0	Office Furniture & Equipment	149		149	149	-	6.67%	-
25	340.1	Computers & Software			-		-	20.00%	-
26	341.0	Transportation Equipment			-		-	20.00%	-
27	342.0	Stores Equipment			-		-	4.00%	-
28	343.0	Tools, Shop & Garage Equip.			-		-	5.00%	-
29	344.0	Laboratory Equipment			-		-	10.00%	-
30	345.0	Power Operated Equipment			-		-	5.00%	-
31	346.0	Communication Equipment			-		-	10.00%	-
32	347.0	Miscellaneous Equipment			-		-	10.00%	-
33	348.0	Other Tangible Plant			-		-		-

Line No.	DESCRIPTION	PRIOR DECISION RATE BASE	[A] STAFF ADJUSTED AMOUNT	[B] OCLD Depreciable AMOUNT	[D] EXPENSE
34	Subtotal General		81,853	$ -	$ -
35	Less: Non- depreciable Account(s) (L3)		1,250	-	
36	Depreciable Plant (L29-L30)	81,853	$ 80,603	$ -	
37	Contributions-in-Aid-of-Construction (CIAC)		$ -		
38	Composite Depreciation/Amortization Rate		1		
39	Less: Amortization of CIAC (L32 x L33)				$ -
40	Depreciation Expense - STAFF [Col. (C), L29 - L34]				$ -

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
36	Revised Depreciation Expense	$ 1,827	$ (1,827)	$ -

Wilhoit Water Company
Yavapai Mobile Home Estates ACRM
Docket No. W-02065A-07-0311, et.al.

APPENDIX B

List of Schedules

The following illustrates the ACRM schedules. The values are only illustrative.

1. Balance Sheet - The most recent balance sheet available at the time of the ACRM filing.

2. Income Statement - The most recent income statement for the twelve months ending at the balance sheet date.

3. Earnings Test - An earnings test calculation to verify the ACRM surcharge does not result in excess earnings.

4. Rate Review Filing - A rate review calculation.

5. Arsenic Compliance Revenue Requirement - An arsenic compliance revenue requirement calculation.

6. Surcharge Calculation - A calculation of the surcharge necessary for recovery of arsenic remedial equipment capital costs.

7. Rate Base Calculation - A schedule showing the elements and the calulation of the rate base.

8. CWIP Ledger - A ledger showing the transactions recorded in construction work in progress account related to arsenic plant.

9. A schedules showing allocation factors and amounts among all systems.

10. Typical Bill Analysis - A schedlue showing the ACRM impact on the Typical 5/8-inch Residential Customer monthly bill.

Wilhoit Water Company
Yavapai Mobile Home Estates
Docket No. W-02065A-07-0311, et.al.

APPENDIX B
ACRM Schedule 1
Balance Sheet

ILLUSTRATION ONLY

Balance Sheet at most recent date prior to ACRM filing.

Line No.	Description		[A] Month Year Ending
	ASSETS		
1	Utility Plant in Service	$	175,530
2	Accumulated Depreciation - Utility		(40,000)
3	Property Held for Future Use		-
4	Construction Work in Process		2,000
5	Subtotal Utility Plant	$	137,530
6			
7	Non-Utility Property		-
8	Accumulated Depreciation - Nonutility		-
9	Other Investments		-
10	Subtotal Non-Utility Property and Investments	$	-
11			
12	Current Assets		
13	Cash		500
14	Working Funds		-
15	Temporary Cash Investments		1,000
16	Customer Accounts Receivable		100
17	Notes Receivable		2,000
18	Plant Material & Supplies		500
19	Prepayments		-
20	Miscellaneous Current & Accrued Assets		910
21	Other		-
22	Total Current Assets	$	5,010
23			
24			
25	Deferred Debits		
26	Debt and preferred stock		-
27	Expense of rate proceeding		-
28	Prelim survey & invest charges		500
29	Reg Asset-income tax recovery		-
30	Other		-
31	Total Deferred Debits	$	500
32			
33			
34	Total Assets	$	143,040
35			
36	CAPITAL AND LIABILITIES		
37	Common Stock	$	-
38	Paid in capital		-
39	Retained Earnings		1,890
40	Total Equity	$	1,890
41			
42			
43	Preferred stock		-
44	Long term debt		-
45	Total Capitalization	$	1,890
46			
47	*Current Liabilities*		1,000
48	Accounts Payable		200
49	Notes Payable (current portion)		109,200
50	Notes Payable to Associated Companies		-
51	Customer deposits		5,000
52	Taxes accrued		100
53	Accrued Interest		50
54	Miscellaneous current & accrued liabilities		600
55	Other		-
56			
57	*Subtotal Current Liabilities*		116,150
58			
59	Deferred Credits		-
60			
61	Contributions in Aid of Construction		25,000
62			
63	TOTAL CAPITAL AND LIABILITIES	$	143,040

Wilhoit Water Company
Yavapai Mobile Home Estates
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APPENDIX B
ACRM Schedule 2
Income Statement

ILLUSTRATION ONLY

Income Statement for the most recent 12 months prior to ACRM filing.

Line No.	Description	[A] Month Year Ending	[B] Adjustments Conforming to the Decision	(C) As Adjusted
1	Operating Revenues			
2	Metered Water Revenue	$ 114,000		$ 114,000
3	Unmetered Water Revenue	600		600
4	Other Water Revenue	500		500
5	**Total Operating Revenues**	$ 115,100	$ -	$ 115,100
6				
7				
8	Salaries & Wages	15,000		15,000
9	Purchased Water	-		-
10	Purchased Power	14,350		14,350
11	Chemicals	50		50
12	Repairs & Maintenance	30,000		30,000
13	Office Supplies & Expenses	3,000		3,000
14	Outside Services	2,500		2,500
15	Water Testing	10,300		10,300
16	Rents	6,600		6,600
17	Transportation Expenses	300		300
18	Insurance - General Liability	3,300		3,300
19	Insurance - Health & Life	-		-
20	Regulatory Commission Expense	-		-
21	Miscellaneous Expense	6,600	(1,200)	5,400
22	Total Maintenance & Operating Expenses	$ 92,000	$ (1,200)	$ 90,800
23	Depreciation & Amortization Expense	5,220		5,220
24	General Taxes	1,000		1,000
25	Income Taxes	500		500
26	**Total Operating Expenses**	$ 98,720	$ (1,200)	$ 97,520
27				
28	**UTILITY OPERATING INCOME / (LOSS)**	$ 16,380		$ 17,580
29				
30	Other Income / (Expense)			
31	Interest and Dividend Income	100		100
32	Non-Utility Income	-		-
33	Miscellaneous Non-Utility Expenses	-		-
34	Other Income / (Expense)	$ 100		$ 100
35				
36	Income Before Interest Charges	$ 16,480		$ 17,680
37	Interest Charges	1,000		1,000
38				
39	Net Income	$ 15,480		$ 16,680

OPERATING ADJUSTMENT EXAMPLE

Line No.		Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
40	-	Miscellaneous Expense	$ 90,800	$ (1,200)	$ 89,600

Please explain adjustment here. E.g., to remove lobbying expense disallowed by decision.

Wilhoit Water Company
Yavapai Mobile Home Estates ACRM Step 1
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APPENDIX B
ACRM Schedule 3
Earnings Test
ILLUSTRATION ONLY

Line No.	Description		[A] Month Year Ending Actual
1	Operating Revenues		
2	Total Operating Revenues	$	115,100
3			
4	Operating Expenses		
5	Total Maintenance & Operations Expense		92,000
6	Depreciation & Amortization		5,220
7	General Taxes		1,000
8	Income Taxes		500
9	Total Operating Expenses		98,720
10			
11	Utility Operating Income		16,380
12			
13	Other Income		100
14			
15	Income Before Interest Charges		16,480
16			
17	Interest Charges		1,000
18			
19	Net Income	$	15,480
20			
21	Rate Base - O.C.L.D. (2006 Test Year)		146,500
22			
23	Authorized ACRM Operating Margin per Decision		21.63%
24			
25	Actual ROR (Ln. 11 ÷ Ln. 21)		11.18%
26			
27	Actual Operating Margin (Ln. 11 ÷ Ln. 2)		14.23%
28			
29	Interest Coverage (Ln. 11 + Ln. 8 ÷ Ln. 17)		16.88

Wilhoit Water Company
Yavapai Mobile Home Estates
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APPENDIX B
ACRM Schedule 4
Rate Review

ILLUSTRATION ONLY

Line No.	Description	[A] Per Decision XXXXX	[B] 12 Months Ended Month Year Ending Adjusted	(C) Arsenic Treatment Plant Increase	[D] Adjusted
1	Operating Revenues				
2	Total Operating Revenues	$ 115,417	$ 115,100	$ -	$ 115,100
3					
4					
5	Total Maintenance & Operatings Expense	85,600	90,800		90,800
6	Depreciation & Amortization	4,000	5,220		5,220
7	General Taxes	8,000	1,000		1,000
8	Income Taxes	500	500		500
9	Total Operating Expenses	$ 98,100	$ 97,520	$ -	$ 97,520
10					
11	Operating Income	$ 17,317	$ 17,580	$ -	$ 17,580
12					
13	Rate Base O.C.L.D. (Sch. 7 Ln. 32)	$ 51,243	$ 110,395	$ 36,105	$ 146,500
14					
15	Authorized ACRM Return on Equity Per Decision	12.00%	12.00%	12.00%	12.00%
16					
17	Actual ROR (Ln. 11 ÷ Ln. 13)	33.79%	15.92%	N/A	12.00%
18					
19	Operating Margin (Ln. 11 ÷ Ln. 2)	15.00%	15.27%	N/A	15.27%
20					
21	Interest Expense (Synchronized Interest)	$ -	$ 1,000	N/A	$ 1,000
22					
21	Interest Coverage (Ln. 11 + Ln. 8 ÷ Ln. 21)	0.00	18.08	N/A	18.08

Wilhoit Water Company
Yavapai Mobile Home Estates
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APPENDIX B
ACRM Schedule 5
ACRM Revenue Requirement

ILLUSTRATION ONLY

Line No.			[A]
1	Arsenic Plant Revenue Requirement		
2	Arsenic Plant in Service[1]	$	36,105
3	Less; Accumulated Depreciation		-
4	ACRM Rate Base	$	36,105
5	Depreciation rate[2]		5.00%
6	Depreciation expense		1,805
7	Depreciation expense net of tax savings		1,408
8	Recoverable O&M costs		-
9	Recoverable O&M costs net of tax savings[3]		-
10	Income/(Loss)	$	(1,408)
11	Rate of return		-3.90%
12	Authorized ACRM Return on Equity		12.00%
13	Required Operating Income	$	4,333
14	Operating Income deficiency	$	5,741
15	Gross revenue conversion factor[4]		1.282
16	ACRM Surcharge Revenue Requirement	$	7,360

[1]From Schedule 8 CWIP Ledger
[2]Use composite rate calculated from component rates by account.
[3]Assumes a 22 percent combined state and federal income tax rate.
[4] GRCF = 1/(1-Tax Rate) = 1/(1-.22) = 1.282

Wilhoit Water Company
Yavapai Mobile Home Estates
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APPENDIX B
ACRM Schedule 6
Surcharge Calculation

ILLUSTRATION ONLY

Line No.		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
	Growth	Customers	Total Gallons Sold	Gallons Sold Per Cust.					
1	Year 1 (Most Recent 12 Months)	90	9,000,000	100,000.00					
2	Year 2 (Project Subsequent 12 Months)	95	9,850,109	103,685.36					
3	Year 2 minus Year 1	5	850,109	3,685					
4	Percentage Change	5.56%	9.45%	3.69%					
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 ÷ 2)		9,425,055						
6									
7									
8									
9									
10	Meter Size	Average Customers at 12/31/2007	Estimated Customers at 12/31/2008	Estimated Average Customers	Monthly Minimum	Minimum Multiples	Equivalent Meters	Fixed Increment Monthly	Fixed Increment Annual Total
11	Resid. 5/8-inch	93	98	96	$ 10.00	1.0	96	$ 2.62	$ 3,002
12	Commer. 5/8-inch	-	-	-	$ 10.00	1.0	-	$ 2.62	-
13	1-inch	-	-	-	$ 15.00	1.5	-	$ 3.93	-
14	1.5-inch	-	-	-	$ 25.00	2.5	-	$ 6.54	-
15	2-inch	1	1	1	$ 50.00	5.0	5	$ 13.09	161
16	3-inch	-	-	-	$ 80.00	8.0	-	$ 20.94	-
17	4-inch	1	1	1	$ 160.00	16.0	16	$ 41.88	516
18	6-inch	-	-	-	$ 250.00	25.0	-	$ 65.43	-
19	8-inch	-	-	-	$ 500.00	50.0	-	$ 130.87	-
20	Multi-family 044 1"	-	-	-	-	0.0	-	-	-
21	Multi-family 056 2"	-	-	-	-	0.0	-	-	-
22	Multi-family 064 4"	-	-	-	-	0.0	-	-	-
23	Multi-family 065 2"	-	-	-	-	0.0	-	-	-
24	Multi-family 067 4"	-	-	-	-	0.0	-	-	-
25	Multi-family 089 1"	-	-	-	-	0.0	-	-	-
26	Multi-family 102 2"	-	-	-	-	0.0	-	-	-
27	Multi-family 129 4"	-	-	-	-	0.0	-	-	-
28	Multi-family 153 4"	-	-	-	-	0.0	-	-	-
29	Total	95	100	98			117		$ 3,680
30									
31				Minimum Surcharge	Commodity Surcharge				
32	Calculation of Surcharge								
33	*Total costs to be recovered* (Sch. 5 Col A Ln 16)		$ 7,360						
34	Minimum Revenue (Col B Ln 33 ÷ 2)			$ 3,680					
35	Commodity Revenue (Col B Ln 33 ÷ 2)				$ 3,680				
36									
37	Monthly Increment Per Equivalent Meter								
38	Equivalent Meters (Col F Ln 29 × 12 Months)			1,406					
39									
40	Minimum Surcharge (Ln 34 ÷ Ln 38)			$ 2.62					
41									
42	Average Gallons (Col B Ln 5)				9,425,055				
43									
44	Commodity Surcharge Per 1,000 Gallons (Ln 35 ÷ Ln 42 x 1,000)				$ 0.3904				

Wilhoit Water Company
Yavapai Mobile Home Estates
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APPENDIX B
ACRM Schedule 7
Rate Base

ILLUSTRATION ONLY

LINE NO.		[A] Per Decision XXXXX	[B] Arsenic Treatment Plant Increase	[C] Decision Plus Arsenic Treatment Plant	[D] Actual Balance Month Year Ending	[E] Arsenic Treatment Plant Increase	[F] Actual Balance Plus Arsenic Trtmt. Plant
1							
2							
3	Gross Utility Plant in Service	$ 111,493	$ 36,105	$ 147,598	$ 175,530	$ 36,105	$ 211,635
4	Accumulated Depreciation	(40,000)		(40,000)	$ (40,000)		(40,000)
5	Arsenic Removal Facilities	-		-			-
6	Accumulated Depreciation of Arsenic Plant	-		-			-
7							
8		$ 71,493	$ 36,105	$ 107,598	$ 135,530	$ 36,105	$ 171,635
9							
10	Net Utility Plant in Service						
11	Advances in Aid of Construction	-		-	-		-
12	Imputed Regulatory Advances	-		-	-		-
13	Accum. Amortization of Regulatory AIAC	-		-	-		-
14	Contributions in Aid of Construction	20,000		20,000	25,000		25,000
15	Accum. Amortization of CIAC	(750)		(750)	(1,000)		(1,000)
16	Imputed Regulatory Contributions	-		-	-		-
17	Accum. Amortization of Regulatory CIAC	-		-	-		-
18	Customer Meter Deposits	5,000		5,000	5,000		5,000
19	Deferred Income Taxes & Investment Tax Credits	-		-	-		-
20							
21		$ 24,250	$ -	$ 24,250	$ 29,000	$ -	$ 29,000
22							
23	Total Deductions						
24	Unamortized Finance Charges	-		-	-		-
25	Deferred Tax Assets	-		-	-		-
26	Allowance for Working Capital	4,000		4,000	3,865		3,865
27	Utility Plant Acquisition Adjustment	-		-	-		-
28							
29	Total Additions	$ 4,000	$ -	$ 4,000	$ 3,865	$ -	$ 3,865
30							
31	Total Rate Base	$ 51,243	$ 36,105	$ 87,348	$ 110,395	$ 36,105	$ 146,500

Wilhoit Water Company
Yavapai Mobile Home Estates
Docket No. W-02065A-07-0311, et.al.

APPENDIX B
ACRM Schedule 8
CWIP Ledger

List arsenic improvement workorders, contracts, invoices etc.

Line No.	
1	
2	
3	
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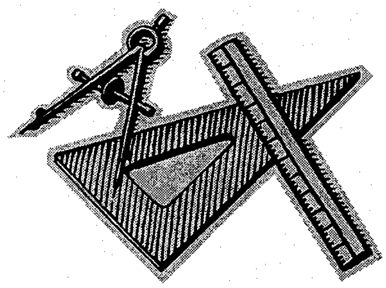
Wilhoit Water Company
Yavapai Mobile Home Estates
Docket No. W-02065A-07-0311, et.al.

APPENDIX B
ACRM Schedule 9
Typical Bill Analysis

ILLUSTRATION ONLY

Line No.	Residential 5/8-inch Customer [A] Gallons Consumption	[B] Present Rates	[C] ACRM Surcharge	Total Bill	[D] Percent Increase
1					
2	-	$ 10.00	$ 2.62	$ 12.62	26.2%
3	1,000	$ 11.95	$ 3.01	$ 14.96	25.2%
4	2,000	$ 13.90	$ 3.40	$ 17.30	24.4%
5	3,000	$ 15.85	$ 3.79	$ 19.64	23.9%
6	4,000	$ 18.80	$ 4.18	$ 22.98	22.2%
7	5,000	$ 21.75	$ 4.57	$ 26.32	21.0%
8	6,000	$ 24.70	$ 4.96	$ 29.66	20.1%
9	7,000	$ 27.65	$ 5.35	$ 33.00	19.4%
10	8,000	$ 30.60	$ 5.74	$ 36.34	18.8%
11	9,000	$ 33.55	$ 6.13	$ 39.68	18.3%
12	10,000	$ 36.50	$ 6.52	$ 43.02	17.9%
13	11,000	$ 40.05	$ 6.91	$ 46.96	17.3%
14	12,000	$ 43.60	$ 7.30	$ 50.90	16.7%
15	13,000	$ 47.15	$ 7.69	$ 54.84	16.3%
16	14,000	$ 50.70	$ 8.08	$ 58.78	15.9%
17	15,000	$ 54.25	$ 8.47	$ 62.72	15.6%
18	16,000	$ 57.80	$ 8.86	$ 66.66	15.3%
19	17,000	$ 61.35	$ 9.25	$ 70.60	15.1%
20	18,000	$ 64.90	$ 9.65	$ 74.55	14.9%
21	19,000	$ 68.45	$ 10.04	$ 78.49	14.7%
22	20,000	$ 72.00	$ 10.43	$ 82.43	14.5%
23	21,000	$ 75.55	$ 10.82	$ 86.37	14.3%
24	22,000	$ 79.10	$ 11.21	$ 90.31	14.2%
25	23,000	$ 82.65	$ 11.60	$ 94.25	14.0%
26	24,000	$ 86.20	$ 11.99	$ 98.19	13.9%
27	25,000	$ 89.75	$ 12.38	$ 102.13	13.8%
28					
29					
30	Average Residential Consumption				
31	Average Residential Bill	$ 23.40	$ 4.79	$ 28.19	20.5%
32					
33	Monthly Minimum Rate	$ 10.00	2.62		
34	Commodity Rate 0 to 3,000 gallons	1.950	0.3904		
35	Commmodity Rate 3,001 to 10,000 gallons	2.950	0.3904		
36	Commmodity Rate 10,000 gallons and over	3.550	0.3904		



ENGINEERING REPORT
FOR WILHOIT WATER COMPANY
(YAVAPAI MOBIL HOME ESTATES)
Docket No. W-02065A-07-0311

October 3, 2007

CONCLUSIONS

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Yavapai Water System (Public Water System # 13-077) has unresolved arsenic exceedance and has a temporary interconnection with the City of Prescott. Water being served via the Prescott tie-in meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

2. The Company has not yet obtained the Approval of Construction ("AOC") for its Arsenic Treatment System from ADEQ.

3. The Company did not report the data for gallons pumped. Based on the unknown gallons pumped, the water loss percent cannot be determent.

4. The Company is located in the Prescott Active Management Area ("AMA") and is subject to Arizona Department of Water Resources ("ADWR") reporting and conservation requirements. ADWR has indicated that the Company's Yavapai system is not in compliance with ADWR requirements for calendar year 2006, based on ADWR's audit of the Company's 2006 Annual Withdrawal and User Reports.

5. The Company water system's current well and storage capacities are adequate to serve the present customer base and reasonable growth.

6. The Company does not have an approved Curtailment Plan Tariff ("CPT") for its system.

7. The Company has an approved backflow prevention tariff.

8. The proposed arsenic treatment system and estimated costs appear to be reasonable and appropriate.

RECOMMENDATIONS

1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2008, documentation from ADEQ indicating that there are no compliance deficiencies and the Yavapai Water System (Public Water System # 13-077) is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

2. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2008, a copy of the ADEQ AOC for the arsenic treatment system.

3. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2008, a letter from ADWR indicating that the Company's water use and monitoring requirements have been resolved and the Yavapai system's well #55-504297 has been converted to a non-exempt well.

4. Staff recommends that Wilhoit be required to report the Water Use Data (to include customer count information) and Plant Summary information separately for each of its three water systems in future Annual Reports.

5. Staff recommends that the Company monitor the Yavapai system and submit the gallons pumped and sold to determine the actual water loss for one full year. The results of this monitoring and reporting should be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

6. Staff recommends that annual water testing expense of $1,983 be used for this proceeding.

7. Staff recommends that the Company adopt the depreciation rates delineated in Table B.

8. Staff recommends that the Company adopt Staff's recommended Service Line and Meter Installation charges listed in Table C.

9. Staff recommends that the Company file a CPT with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at www.azcc.gov/divisions/utilities/forms/Curtailment-std.pdf. Staff recognizes that the Company may need to make minor

modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.

10. The submitted costs for drilling a new well appear to be reasonable.

TABLE OF CONTENTS

A. INTRODUCTION AND LOCATION OF COMPANY

On May 21, 2007, Wilhoit Water Company /Yavapai Mobil Home Estates ("Company") filed rate and financing applications with the Arizona Corporation Commission ("ACC" or "Commission"). The Yavapai Water System ("System") serves the Yavapai Mobil Home Estates east of Highway 89 in Chino Valley. Figure 1 shows the location of the Company within Yavapai County and Figure 2 shows the approximate two square miles of certificated area.

Figure1

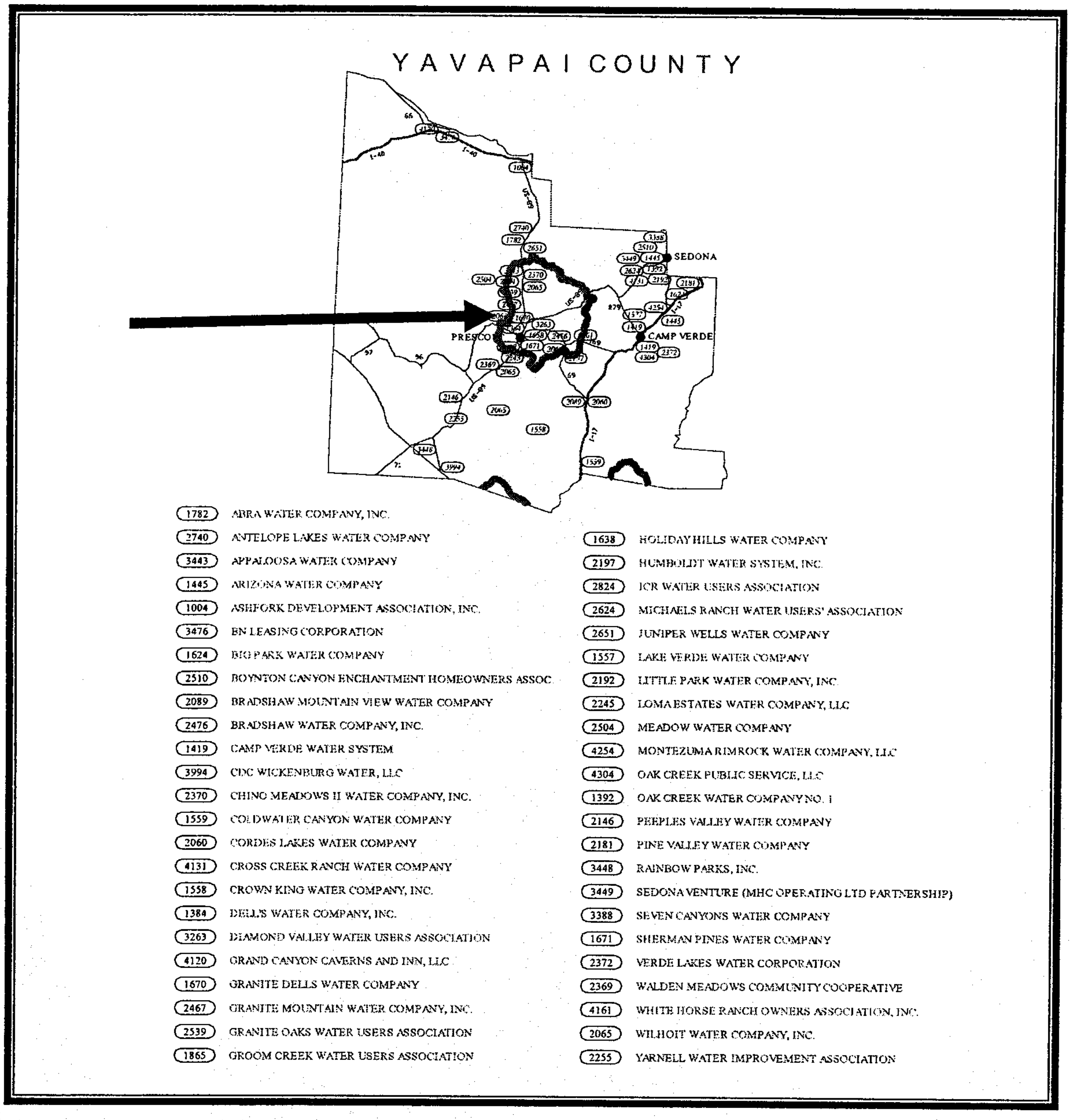
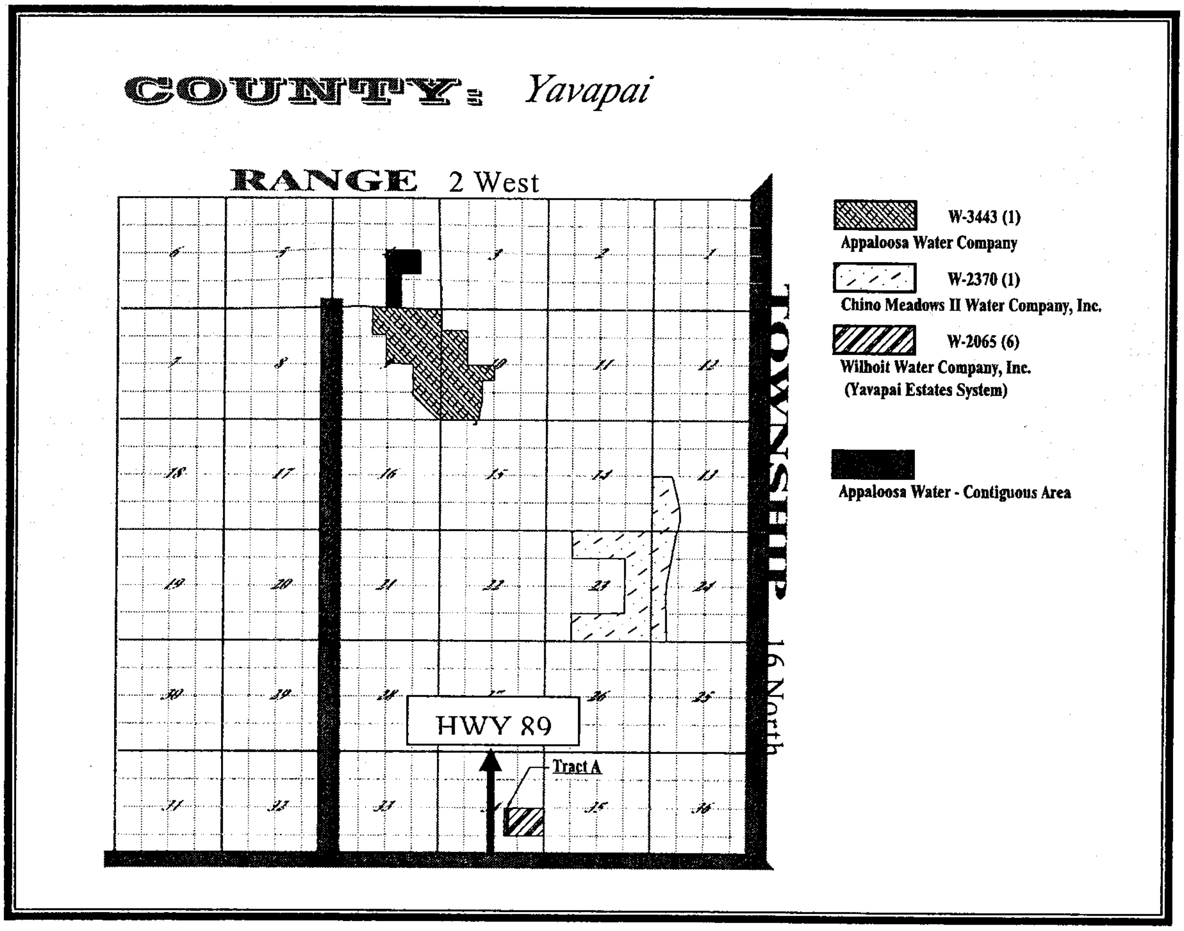


Figure2



B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on August 10, 2007, by Katrin Stukov in the accompaniment of Jim West, the Company's representative. The system has three wells (located on three separate sites), two storage tanks, pumping facilities and a distribution system serving 95 customers. The Company's newest well which was drilled in 2005[1] was capped and never connected to the system due to its high arsenic level. The Company's two other wells which were drilled in 1971 and 1982 (see detailed plant facility tables below) were taken out of service in January 2007 due to the high arsenic level[2] in the water these wells were producing. The City of Prescott (the "City") agreed to provide water supply to the Company through a temporary interconnect until December 31, 2007. The Company is now in process of installing an arsenic treatment system[3] which according to the Company is designed to treat water produced by the Company's two older wells. The Company has no plans at this time to use the newest well. Figure 3

[1] See Section J (Financing) for more details on this newest well.
[2] See Section E (ADEQ) in this report for more details on the Company's arsenic issue.
[3] See Section J (Financing) for more details.

provides a process schematic for the water system. The tables below show detailed plant facilities for the test year as reported by the Company on August 20, 2007, and on October 3, 2007:

Wells

Plant Items	Location: Site # 1	Location: Site # 2	Location: Site # 3
	South Well ADWR # 55-622747	North Well ADWR # 55-504297	Capped Well * ADWR # 55-904908
Pump	5-Hp	5-Hp	-
Pumping Rate	30 GPM	30 GPM	-
Casing Size	6-inch	6-inch	6-inch
Casing Depth	420 ft	389 ft	580 ft
Year Drilled	1971	1982	2005
Meter Size**	1.5-inch	2-inch	-

*Note: Well was drilled and capped due to high arsenic level (over 400 ppb)

**Note: Both wells were taken out of service in January 2007, therefore, Staff could not verify any information for well's meters during site visit.

Water Tanks and Components

Location	Water Tanks	Components	Structures
Site#1	14,000 gallons storage tank		
Site#1	14,000 gallons storage tank		
Site#1	3,000 gallons pressure tank	(2)-5Hp booster pump (1)chlorine injection pump and chlorine tank	Pump house enclosure
Site#2			Fence (20'x 15')

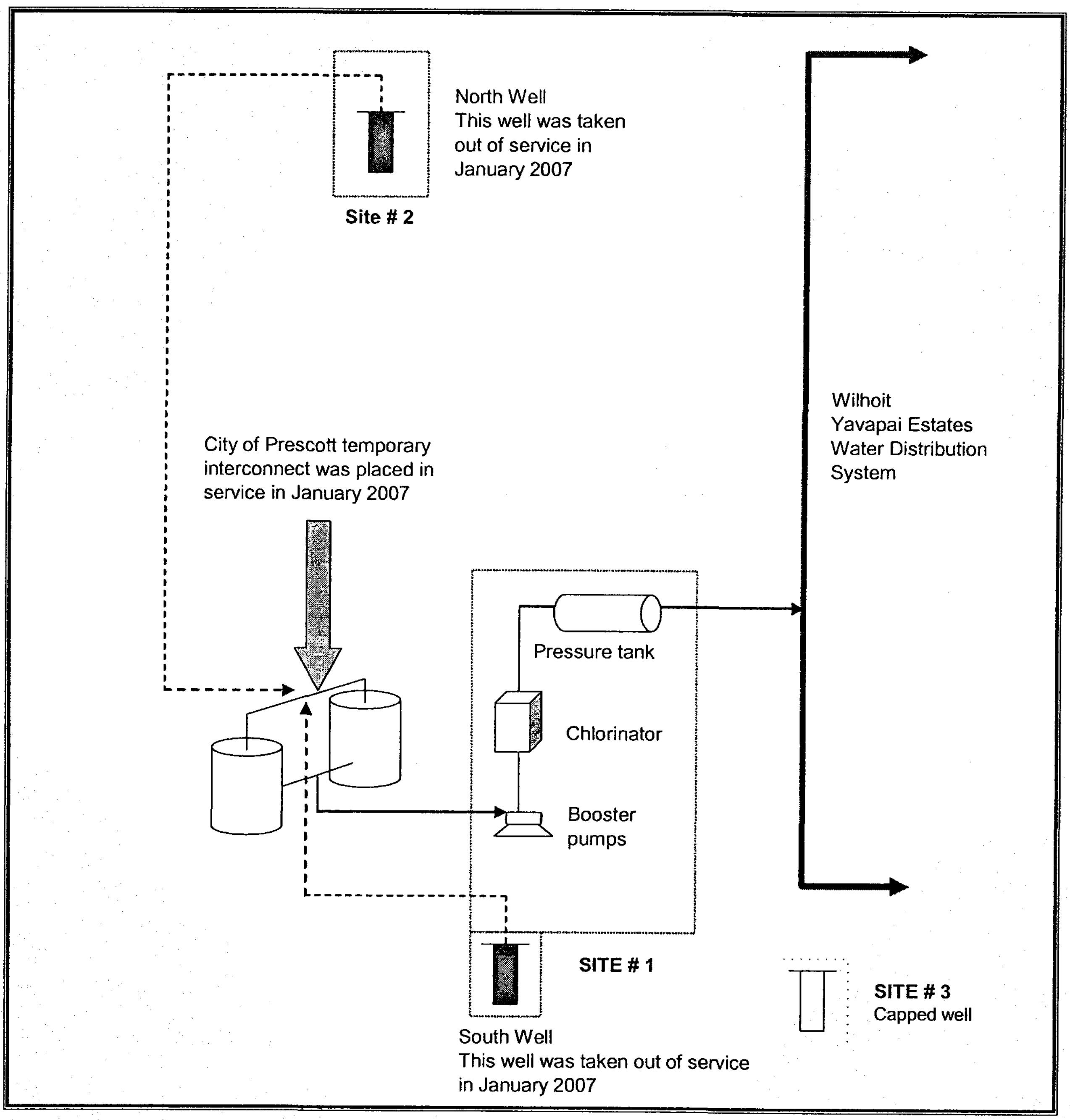
Water Mains

Diameter(inches)	Material	Length (feet)
4	PVC	1,300
6	PVC	6,137

Customer Meters

Size (inches)	Quantity
5/8 x 3/4	93
2	1
Comp.4	1

Figure 3 System Schematic[4]

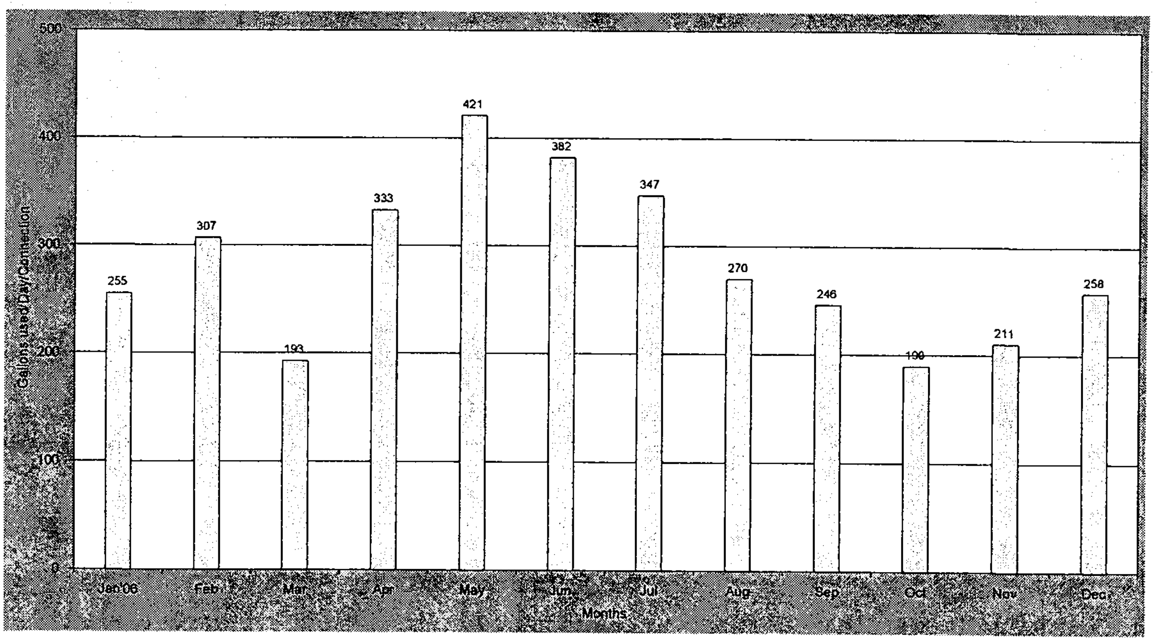


[4] Based on Staff's site visit

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the test year ending December 31, 2006, is presented below. Customer consumption included a high monthly water use of 421 gallons per day ("GPD") per connection in May, and the low water use was 190 GPD per connection in October. The average annual use was 284 GPD per connection.



Water Use

Non-account Water

Non-account water should be 10% or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 9,850,109 gallons of water sold and did not report the data for gallons pumped. In its responses[5] to data requests, the Company stated that it was not known until recently (2007) that meters were in place on system's wells, therefore, no readings were done in 2006. Based on the unknown gallons pumped, the water loss percent cannot be determined at this time.

[5] Based on Company's responses to Staff's request for information received on August 20, 2007

System Analysis

Based on the data provided by the Company, the system's current two source well production capacity totaling 60 GPM and storage capacity of 28,000 gallons could adequately serve approximately 130 service connections (governed by storage capacity). The system had 95 connections during the test year. Staff concludes that the Company's current well and storage capacities are adequate to serve the present customer base and reasonable growth.

D. GROWTH

In the Company's Annual Reports, it did not separate the customer count for each of its three independent water systems, but instead, reported its entire customer base as one. Therefore, Staff cannot report or project growth for the Company using historical annual growth rates. The Company should be required to report its customer count by system in future Annual Reports. Staff would note, however, that the Company reported 78 customers during 1991, for the Company's prior rate case, and the Company reported 95 customers during 2006 test year for this rate case. Based on this information, Staff calculated a growth rate of approximately 2 customers per year and estimated that the system could have over 115 customers by 2011.

E. ADEQ COMPLIANCE

Compliance / Arsenic[6]

The ADEQ has reported that the Yavapai Water System (Public Water System # 13-077) has unresolved arsenic exceedance and has a temporary interconnection with the City of Prescott. This temporary interconnect has enabled the Yavapai system to serve an alternate source of water that meets the arsenic standard. The Company has until December 31, 2007, to install arsenic treatment. Prior to this interconnect the ADEQ database shows:

- Arsenic exceedance on March 23, 2005 and June 28, 2005.
- The required quarterly Arsenic analyses have not been done after exceedance.

Water being served via the Prescott tie-in meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Approval of Construction ("AOC")

The Company has not yet obtained the AOC for the Arsenic Treatment System from ADEQ.

[6] Per ADEQ Compliance Status Report dated November 8, 2007.

F. WATER TESTING EXPENSE

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections). The Company reported its water testing expense at $3,559 during the test year. In addition to MAP fees for the 2006 Calendar Year, these expenses included MAP fees for 2007 for the Yavapai system and MAP fees for two other systems (#13-055 and # 13-056). Also, these expenses included fee for preparation of the Consumer Confidence Report ("CCR") and costs related to arsenic tests for the future Arsenic Treatment System. Staff has reviewed these expenses and has recalculated the annual expense by subtracting non-applicable MAP fees, CCR fees and cost of tests for the future plant, and adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Company chlorinates its wells and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of $1,983 with participation in the MAP (ADEQ - MAP invoice for the 2006 Calendar Year was $502).

Table A. Water Testing Cost

Monitoring	Cost per test	No. of tests per year	Annual Cost
Total coliform – monthly	$65	12	$780
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	$55	1	$55
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP
MAP fee			$502
Lead & Copper – per 3 years - Sampling & shipping	$40 $30	5/3-yrs 5/3-yrs	$67 $50
D/DBP:			
TTHM/HH5 – per 3 years - Sampling & shipping samples	$335 $50	1 1	$112 $17
Maximum Residual Disinfection Level ("MRDL")	$20	4	$80
Arsenic	$80	4	$320
Total			**$1,983**

Staff recommends annual water testing expense of $1,983 be used for purposes of this application.

G. ADWR COMPLIANCE

The Company is within the Prescott AMA, and consequently is subject to ADWR reporting and conservation requirements. In response to Staff's requests for a compliance status, ADWR provided a copy of its Advisory letter to Wilhoit Water Company dated October 11, 2007. According to the letter, the Company's three water systems (Yavapai, Blue Hills and Dell's) are not in compliance with ADWR requirements for calendar year 2006, based on ADWR's audit of the Company's 2006 Annual Withdrawal and User Report. The Company shall provide conformation of repair or installation of new meters for all its wells to ADWR by December 11, 2007. The Company's 2007 Annual Withdrawal and User Report will have to include the partial meter readings for the fourth quarter of 2007. Furthermore, in order to continue to use one of the Yavapai system's exempt well (#55-504297) under the Company's service area right, it will have to be converted to a non-exempt well.

H. DEPRECIATION RATES

The Company has been using a depreciation rate of 5.00% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 5% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B below and it is recommended that the Company use depreciation rates by individual NARUC category on a going-forward basis.

TABLE B
TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company's requested charges are within range of charges typically recommended by Staff. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff's recommended charges listed in Table C should be adopted.

Table C. Service Line and Meter Installation Charges

Meter Size	Company's Current Charges[7]	Company's Proposed Charges	Staff's Recommendations		
			Service Line Charges	Meter Charges	Total Charges
5/8 x 3/4-inch	$265	$520	$385	$135	$520
3/4-inch	$295	$600	$385	$215	$600
1-inch	$345	$690	$435	$255	$690
1-1/2-inch	$520	$935	$470	$465	$935
2-inch	$725	$1,595	$630	$965	$1,595
3-inch	$925	$2,275	$805	$1,470	$2,275
4-inch	$1,550	$3,520	$1,170	$2,350	$3,520
6-inch	$3,725	$6,275	$1,730	$4,545	$6,275

2. Curtailment Plan Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of water shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not yet have a CPT, this Rate application provides an opportune time to prepare and file such a CPT.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff.

J. FINANCING

The Company has submitted a financing application to assist in funding of two improvement projects installed in attempt to mitigate the Yavapai water system's arsenic

[7] Became effective on December 9, 1992

deficiencies. The system's two wells have arsenic level at 316 parts per billion ("ppb"). The maximum contaminant level for arsenic is 10 ppb.

Construction Projects and Costs

1. Drilling a new well (ADWR# 55-904908)

The Company reported that this well was drilled within about ¼ mile from the Company's existing plant in attempt to locate a supply of water that would meet the arsenic standards. In its responses[8] to data requests, the Company stated that the site was considered due to the fact that a private well on an adjacent property was producing water with minimal levels of arsenic. However, the new well has not been put in service due to high arsenic levels found in water (over 400 ppb). The Company is requesting authorization to incur $10,000 in debt for drilling this well. As part of this financing application the Company submitted invoice estimate from K.P. Ventures Drilling & Pump Co. with the cost breakdown as follows:

Description	Amount
6"Borhole	$6,000
6"Steel Casing	$241.66
6"Drive Shoe	$100.00
4.5"PVC Well Casing	$1,663.26
4.5" PVC Well Casing Screen	$582.14
Surface Seal Grout / Permits	$400.00
Subtotal	$8,987.06
Sales Tax	$370.94
Total	$9,358.00

Although the submitted costs for drilling a new well appear to be reasonable, the Company attempted to locate a supply of water without consulting a hydrologist and detailed exploration of aquifer data. At the present time the Company does not plan to utilize the well due to the expense that would be incurred to remove the high level of arsenic from the water produced by this well.

2. Arsenic Treatment System

The Company is requesting authorization to incur $36,105.40 in debt for installation of the Arsenic Treatment System with the approximate treatment capacity of 77,000 gallons per day[9]. As part of this financing application the Company submitted an invoice from the GECOM Water Solutions, Inc. which included the following cost breakdown:

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[8] Based on Company's responses to Staff's request for information received on October 3, 2007

[9] Per Company's responses to data requests received on July 5, 2007.

Description	Amount
Single tank	$19,000
PH adjustment system	$3,500
Pre-filter	$3,900
Media	$7,000
Sales Tax	$2,705.40
Total	$36,105.40

Staff concludes that the proposed arsenic treatment system and estimated costs appear to be reasonable and appropriate.